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May 22, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton, Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

EX PARTE

Re: ***Computer III Further Remand Proceeding***, CC Docket No. 95-20

Dear Mr. Caton:

The record of this proceeding is replete with empirical evidence showing that the public interest has been well served in the eight years during which the Bell operating companies (BOCs) have been providing unseparated enhanced services subject to Computer Inquiry III nonstructural safeguards. The public has had the choice of a variety of new enhanced services at reasonable rates and the promise of many more. All this has taken place without any harm to unaffiliated enhanced service providers; in fact, the industry as a whole has grown and flourished.

During the initial pleading cycle one year ago, MCI and other opponents of continued structural relief were unable to muster any valid evidence to refute this clear record of the success of the Commission's Computer Inquiry III policies. Their oppositions were limited to theoretical arguments of what might happen in the future -- the same arguments made and rejected during each earlier examination of BOC provision of enhanced services. They were simply unable to refute the unbroken successful track record.

Now MCI is at it again, having filed two inches of paper again raising extraneous issues in a vain attempt to prevent the BOCs from competing effectively in the enhanced services market. *See ex parte* letter dated April 25, 1996 to William F. Caton from Frank W. Krogh. Nowhere in this filing, however, despite a year of preparation, does MCI even allege that past unseparated BOC provision of enhanced services has disserved the public. Nor can MCI point to even one instance in which the BOCs have harmed any enhanced service provider or prevented any such provider from offering the public any enhanced service.

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Instead, the only "new" argument MCI can find is the erroneous assertion that the Telecommunications Act of 1996 makes the economies and public interest benefits of integration illusory. This, MCI claims, is because Section 272 requires BOCs to offer interLATA information services through a separate affiliate for four years after enactment. Therefore, the argument goes, the BOCs may simply fold intraLATA enhanced services into the interLATA subsidiary.

MCI ignores the record in this docket, which shows that the primary economies realized from integrated provision of enhanced services are the ability to jointly advertise and market basic and enhanced services, to install and maintain basic and enhanced services on an integrated basis, and the ability to give customers a single point of contact for all of their telephone company services. The cost of establishing a separate business organization is relatively minor. Therefore, few of the benefits of integration will be realized just by combining interLATA and intraLATA information services. MCI, of course, which is not subject to Computer Inquiry III or any structural separation requirements, will continue to enjoy all of these benefits as it enters the local exchange market.

In addition, the statute allows the BOCs to establish a single separate interLATA subsidiary to provide both telecommunications and information services. 47 U.S.C. § 272(a)(1). Therefore, a BOC could achieve the economies of integration by combining all of its interLATA operations -- both basic and enhanced -- in one entity, while leaving intraLATA basic and enhanced services in the telephone company. Accordingly, contrary to MCI's claim, the new statute does not "tip[] the cost-benefit balance in favor of structural separation."

The other issues MCI raises were either fully discredited in the BOCs' reply comments or are entirely irrelevant to provision of enhanced services, or both. For example, MCI again asserts that the BOCs dominate standards organizations and the Information Industry Liaison Committee (IILC). In essence, MCI contends that the BOCs dominate because they happen to send more people to certain meetings. Even if this were true, which it generally is not (MCI often sends more people to industry meetings than does Bell Atlantic), that fact could not lead to dominance of any responsible organization, such as standards bodies or the IILC, because voting provisions of the organizations' charters are designed to prevent any one group from dominating. *See* Reply Comments of Bell Atlantic in CC Docket No. 95-20 at 20-22 (filed May 19, 1995). Moreover, the number of people that a company happens to send to an industry meeting is hardly a valid consideration in developing regulatory policy.

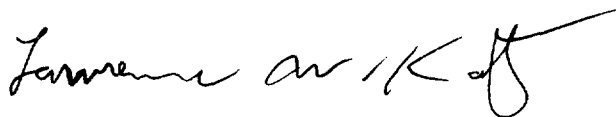
Moreover, the record refutes MCI repeated claim that the BOCs have prevented the IILC from reaching agreement. Bell Atlantic's recent ONA Plan amendments cite four difficult and contentious issues on which the organization reached consensus during the past year. *See* Amendments to Bell Atlantic's ONA Plan at A-10 (filed Apr. 15, 1996). The lengthy documents resolving the issues appear in Appendix D of that filing.

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MCI raises two other extraneous issues. First, MCI again trots out the results of a Commission audit of the BOCs' lobbying expenses in which the auditors found that small amounts of money were misclassified. The Commission's Rules on lobbying expenses were ambiguous at best during the period in question, and Bell Atlantic continues to maintain that it properly classified the expenses. Nonetheless, to avoid litigation, Bell Atlantic and the other BOCs have agreed to adjust their books to reflect the Commission's interpretation and change their accounting prospectively. Second, MCI criticizes the BOCs for providing carrier identification information using the technology that the BOCs have found to be the most efficient rather than using MCI's preferred approach. Neither of these issues has any relevance whatever to the public interest benefits of integrated provision of enhanced services.

MCI's latest *ex parte* filing provides no information that in any way refutes the overwhelming evidence showing the public benefits of integrated provision of basic and enhanced services. Voluminous filings reiterating extraneous issues do nothing to advance MCI's cause. The Commission should quickly resolve this proceeding by reinstating full structural relief for BOC provision of enhanced services.

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence W. Katz", with a stylized flourish at the end.

Lawrence W. Katz